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May 23, 2007

Arizona Corporation Commission
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HAND DELIVERED

Ernest Johnson
Director, Utilities Division
Arizona Corporation Commission
1200 W. Washington
Phoenix, AZ 85007-2996

Re: *Report Regarding Layoffs of AT&T Employees in Arizona Pursuant to Decision No. 68865; Docket Nos. ~~T-02428A-06-0203~~, T-03016A-06-0203, T-03116A-06-0203, T-03287A-06-0203 and T-03346A-06-0203*

Dear Mr. Johnson:

On behalf of AT&T Inc. ("AT&T"), the purpose of this report is to provide further information regarding the layoff of AT&T employees located in Arizona that were given notice of a surplus condition and for which AT&T provided the Commission Notice on January 22, 2007. This report is provided pursuant to the first ordering paragraph at page 10 of Decision No. 68865.

The layoffs were necessary due to a number of factors, including: (1) the 2004 pre-merger AT&T decision to stop aggressively marketing local and stand-alone long distance services to residential and small business customers; (2) AT&T consolidating its operations of similar business activities into fewer, larger centers in order to improve efficiencies and take advantage of scale; and (3) the normal ebbs and flows of the marketplace as customers, for example, move away from traditional wireline services to other alternatives such as wireless and internet-based services.

The force reductions involved different units, including bill print operations, billing integrity management (sometimes referred to as "credit & collections") and local service provisioning for legacy AT&T. In addition, one legacy SBC management employee was affected. AT&T offered severance arrangements to all affected employees.

All non-management employees were able to follow their work to a new work location and, if they did so, were entitled to a one-time cash payment to help defray the costs of the relocation. Those employees who elected not to follow their work or who, for personal reasons, were unable to make the move, received a severance payment based on years of service and position. The employees can also take advantage of post-termination employment search assistance funded by AT&T.

In an effort to re-deploy the affected employees either within AT&T or externally, all affected occupational employees have access for three years after the notification in January to the AT&T Resource Centers, which provide assistance for both internal and external job searches. The Resource Centers provide a full array of career transition services, including resume production and external job lead support, and are focused on providing the resources, tools and guidance to identify opportunities and secure new employment both inside and outside of AT&T. The Resource Centers have professional career counselors available to assist employees.

Also, in an effort to assist employees, AT&T held an on-site job fair which was attended by several local companies, including JP Morgan Chase, the City of Mesa, UPS, Countrywide Insurance, the University of Phoenix and Apple One. AT&T also apprised employees of off-site job fairs held by Capital Group and GoDaddy.com.

The bill print operations were transferred to a legacy SBC bill print center in West Sacramento, California, which had excess capacity and was configured with the hardware and software platforms that will be utilized by AT&T in the future. The bill production facility in Mesa would have required extensive equipment retrofitting to support the bill formats produced by AT&T. The 28 bill processing employees impacted by the notification were allowed to follow the work to the new location in Sacramento, California. Of the impacted employees in the bill print center, 13 elected to follow the work; two accepted a voluntary severance package and 13 received an involuntary severance package.

The billing integrity, or credit and collection work, was consolidated into centers in Orlando, Florida or Ft. Worth, Texas. The local service provisioning work was consolidated in a center in Sacramento, California. Two of the four managers in these groups that were noticed in the surplus transferred to a new position with AT&T. Of the affected occupational employees in these groups, 14 followed the work to their respective new location and 11 left the payroll involuntarily. The remaining 65 impacted occupational employees elected the Extended Compensation Option ("ECO") and were reassigned to the Skills Match Center for a period not to exceed the number of weeks of termination pay the employee is eligible for based on net credited service. The ECO allows an employee to accept work assignments within the local area, for which they receive compensation in addition to the termination payment.

The legacy SBC management employee that was affected was responsible for providing dedicated services to a specific customer location in Tucson as part of a services agreement with IBM. The contract under which the services were provided changed so that AT&T will no longer be providing services to that location, which resulted in the elimination of the position. However, the employee was retained by the new contractor which is providing the service.

The layoffs did not involve a facility closing and AT&T is still conducting business at its Mesa campus. AT&T will realize some cost savings due to the reduced headcount and reduced expenses associated with the consolidation of similar operations into fewer centers. The savings will allow AT&T to be more competitive and viable in the marketplace.

Very truly yours,

GALLAGHER & KENNEDY, P.A.

Michael M. Grant

By:
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cc: Ernest Johnson, Utilities Division (delivered)

Original and 23 copies filed with Docket Control this 23rd day of May, 2007.